INPUT

STRATEGIC MARKET PERSPECTIVE

# Systems Integration in State and Local Government

U.S. Systems Integration Program

JANUARY 1994

# SYSTEMS INTEGRATION IN STATE AND LOCAL GOVERNMENT

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**Systems Integration Program**

***Systems Integration In State And Local Government***

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# Table of Contents


I Introduction I-1

A. Purpose I-1
B. Scope and Use I-1
C. Methodology I-2
D. Related Reports I-2

II Executive Overview II-1

A. User Requirements and Buyer Values II-2
B. Market Opportunities II-3
C. Keys to Success in Penetrating State and Local Government II-4

III User Requirements and Analysis III-1

A. Analysis of Opportunity Data III-1
B. User Need Analysis III-3
C. Vendor Responses III-6

IV Keys to Success in Penetrating the State and Local Government Market IV-1

A. Targeting Opportunities IV-2
B. Organization IV-4
C. Marketing, Sales and Support IV-7



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# Table of Contents (Continued)

Appendixes

A. Definition of Terms A-1

B. User Questionnaire B-1


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# Exhibits


I

| | | |
|---|---|---|
| -1 | State and Local Government—Distribution of Respondents | I-2 |

II

| | | |
|---|---|---|
| -1 | State and Local Government—Major Issues | II-2 |
| -2 | Control of SI Projects | II-3 |

III

| | | |
|---|---|---|
| -1 | State and Local Government—Major Systems Integration Applications by Government Function | III-2 |
| -2 | Opportunities for Systems Integrators | III-3 |
| -3 | Systems Integration Issues | III-4 |
| -4 | Major Buyer Issues | III-5 |
| -5 | Systems Integrators' Market Focus | III-7 |

IV

| | | |
|---|---|---|
| -1 | Keys to Success | IV-2 |
| -2 | Typical State and Local Government Procurement Cycle | IV-4 |
| -3 | Bid Development | IV-6 |
| -4 | Risk Containment | IV-7 |



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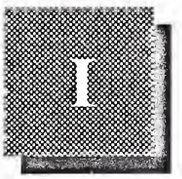

# Introduction

This is one of three reports analyzing trends in systems integration (SI) by vertical industry. These reports are produced as part of INPUT's Systems Integration Program subscription service. Each report focuses on a single industry. Additional reports compare industries in their approach to systems integration.

## A
## Purpose

This report addresses the following issues that pertain to the state and local government industry sector.

- To what degree is the industry's need for systems integration services changing?
- Which applications are likely to require the services of systems integrators over the next three years?
- Who is managing various aspects of the implementation of these applications—the central information services departments (IS), or the end-user management function?
- To what degree are state and local government buyers looking to systems integrators to implement new applications?

## B
## Scope and Use

The scope of this analysis is limited to the state and local government industry sector in the United States. Specifically, INPUT defines this industry to include state, county, city, town and township governments, as well as special districts such as airport authorities, transit systems and many others. Not included are school districts, public colleges, and universities, which INPUT analyzes as part of the education market.


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## C
## Methodology

Data for this analysis were taken from INPUT's opportunities database. This database is built from a continuous telephone interview program to gather information about state and local government applications plans. The interviewing process was initiated in April 1993. In total, 64 interviews were completed over the next six months.

These 64 interviews were the primary source of data for this report, providing data on 93 different projects that would undergo implementation in the next three years. Additional information was obtained by conducting selected follow-up interviews on the state and local government departments that had indicated their intention to use the services of systems integration firms to implement planned applications. A copy of the questionnaire used for these follow-up interviews is included in Appendix B.

EXHIBIT I-1

### State and Local Government Distribution of Respondents

| Interviews | | Projects | |
|---|---|---|---|
| Total | Plan SI | Total | Plan SI |
| 64 | 35 | 93 | 45 |

## D
## Related Reports

Related INPUT reports of possible interest to the reader include the following:

- *U.S. Systems Integration Market Reporter, 1993-1998*
- *Systems Integration Program Reports* (Three separate reports, of which this report is one. The others focus on Health Services and Discrete Manufacturing.)
- *Information Services Vertical Market Analysis, State and Local Government, 1993-1998*
- *Desktop Systems Integration Markets*
- *Systems Integration Technology Developments*


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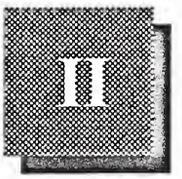


# Executive Overview

State and local governments are caught in a squeeze. On the one hand, there are tremendous pressures to increase spending. An aging population is demanding increased health and public safety services, a weak economy is increasing social welfare costs, and inflation, though at its lowest levels in years, drives up the cost of the wages, goods and services needed to operate government.

On the other hand, state and local governments' revenues are flat at best, and in most cases have decreased significantly, as a weak economy has eroded sales and income taxes. In better times, governments could watch revenues grow as incomes and sales increased or, failing that, they could simply increase taxes. Those days, however, have passed.

Nor is there help from Washington. Federal budget pressures have caused a shift of responsibility from the federal level to the state level. At the same time, state budget limitations have reduced the states' ability to assist local governments.

Government executives are turning to technology to reduce costs, provide additional services to the public, and improve the productivity of government workers. These new solutions represent a real opportunity for systems integrators, as they are becoming increasingly complex, often requiring the connection of disparate systems. Exhibit II-1 summarizes the major issues facing both user and IS managers in state and local government.

INPUT's 1993 surveys of state and local government executives have shown that information systems expenditures are no longer being controlled by internal information systems organizations. This is because user organizations in state and local government, like their counterparts in the private sector, are becoming the buyers of the solutions and they control the budgets for them. The decision to use an outside vendor to provide systems integration services has become more of a management issue and less of an information technology issue.


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EXHIBIT II-1

**State and Local Government Major Issues**

- Budget pressures
- Increasing demand for services
- Increasingly complex solutions
- Connectivity/interoperability

## A
## User Requirements and Buyer Values

User department executives view information technology as the way out of the dilemma of providing more government services for less money. Systems solutions are increasingly complex, spanning multiple departments and agencies. These projects often integrate existing data and applications with new technologies, and require experience not available in-house, or available from the product vendors. It is this complexity that represents a major opportunity for systems integrators.

As shown in Exhibit II-2, a surprising 38% of users surveyed who are planning projects with systems integrators say that they will do so without the involvement of any in-house IS staff. This parallels the trend in the private sector, where users are becoming the buyers of new technology. Vendors interested in entering the state and local government market should be especially sensitive to the needs of end users—chief among which is training and support. User executives realize that it does little good to invest in technology if the technology is underutilized or not used at all because workers are not trained.


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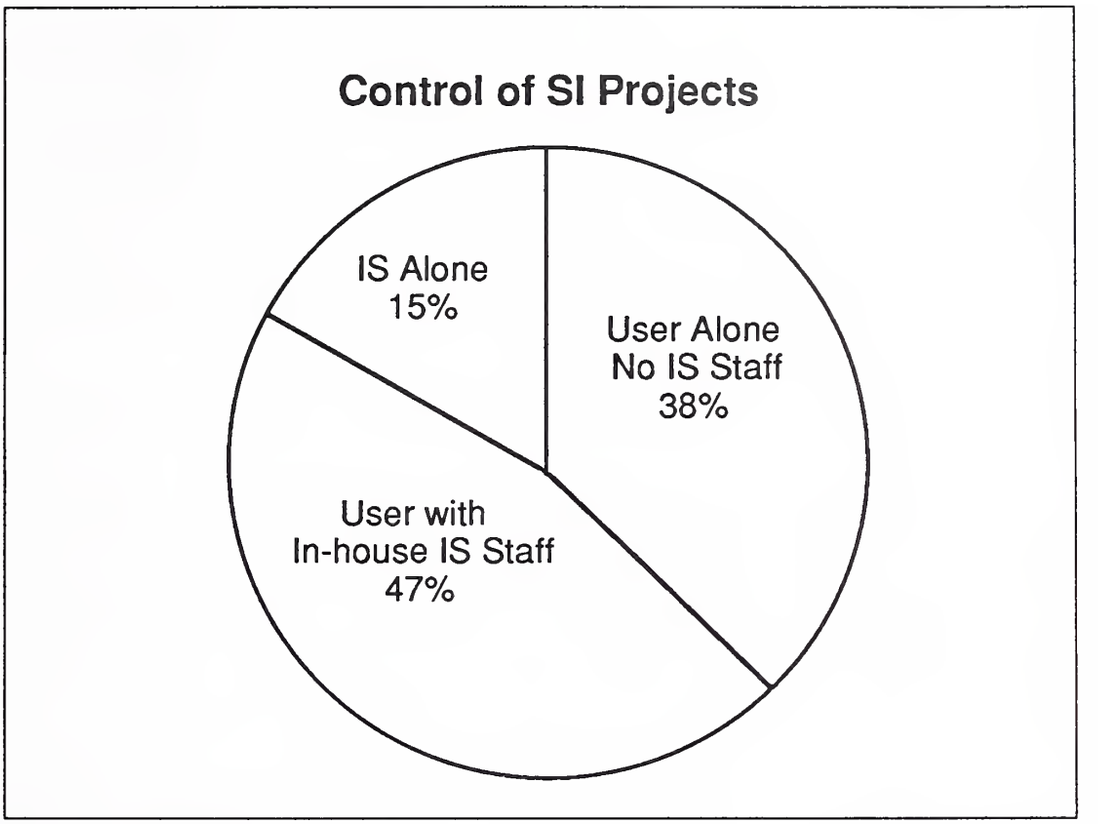
EXHIBIT II-2




## B
## Market Opportunities

Health and human services departments were clearly the largest users of SI services, accounting for 42% of all SI projects identified in the survey of state and local governments. These include health information systems, medical care systems and welfare case management, child support tracking, and welfare eligibility systems.

Taxation and revenue departments accounted for 20% of the systems integration projects in the survey. Most of these new projects were for electronic filing of tax forms, with the balance for office automation systems and network and information systems improvements.

Public safety and criminal justice systems, including systems for local and state police, local fire departments, and courts and corrections departments, altogether represented 20% of all the SI projects. Applications included police records management and crime analysis systems, police and fire dispatch, and probation systems. These applications derive from the public's growing concern about crime.

The new "Motor Voter" law has created opportunities for systems integrators to develop or update driver license systems in several states. These applications are an example of how legislative mandate often sets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priorities for new applications, frustrating the best-laid systems development plans of user and IS managers alike.

## C
## Keys to Success in Penetrating State and Local Government

The procurement process in state and local government is both long and formal. Procurements are divided into three phases:

- Requirements definition - During this phase, a department planning a new application gathers information from similar departments in other jurisdictions, as well as from vendors. This phase can last for months or even years, is usually informal, and ends with development and approval of a budget for the project. Systems integrators have ample opportunity to influence project requirements and specifications and to form alliances with partners whose skills and experience are needed for the project.

- Request for proposal - This is a very formal phase during which vendors have little or no contact with the buyer, and no opportunity to influence the specifications. The duration of this phase is usually 30-60 days, during which time vendors must focus on bid preparation.

- Contract negotiation - Many large projects require six months or more to develop a contract.

The length of the process presents both challenges and opportunities for systems integrators. On the one hand, the length allows ample time to identify opportunities, to influence project specifications and to develop alliances with other vendors whose skills and experience are needed to make the project a success. On the other hand, the process is costly, demanding careful selection of opportunities.

Successful systems integrators continuously develop opportunities and form partnerships and alliances well in advance of need. They are diligent in bid preparation, and include a detailed evaluation of likely competitive bids and strategies. Finally, they have well-developed project management methods and employ skilled project managers.

Because SI projects in the state and local government sector are typically fixed-price contracts, successful firms continually assess and manage the inherent risks.


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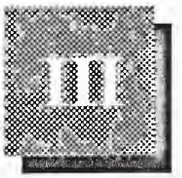

# User Requirements and Analysis

The federal government has used systems integrators to develop major systems for years, and the states and larger cities and counties have not been far behind. State and local government expenditures are growing much faster, however, and as a result, INPUT estimates that state and local expenditures for SI will exceed those of the federal government sector before 1997.

## A
## Analysis of Opportunity Data

Exhibit III-1 summarizes the applications where state and local governments plan to use the services of systems integrators. Exhibit III-2 summarizes the major opportunities for systems integrators by state and local government function. Health and human services departments were clearly the largest users of SI services, accounting for 42% of all SI projects in state and local government. Of these, health information systems and medical care systems account for half. Welfare systems for case management, child support payments, and eligibility account for one-third of the SI projects in this group.

It is not difficult to see why welfare systems have such a high priority. One estimate is that a social worker must file more than a hundred federal, state and local forms for a typical case, and most of the information on these forms is redundant. Michigan awarded a major contract to Unisys to develop a new client/server system to support more than 6,000 welfare case workers. The system is expected to save $40 million each year by reducing the number of errors and cases of fraud that have plagued the existing network.

In INPUT's state and local government user surveys of 1993, every project involving one of the major systems integration firms was a welfare system. The firms mentioned were IBM's ISSC division, Andersen Consulting, Lockheed and Digital Equipment Corporation. This fact would indicate that vendors interested in entering the state and local government market will have significant competition in the health and human services area.


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However, numerous other projects with smaller systems integration firms were identified both inside and outside health and human services.

EXHIBIT III-1

## State and Local Government Major Systems Integration Applications by Government Function

| Government Function | Application |
|---|---|
| Health and Human Services | Health Information Systems<br>Medical Care Systems<br>Welfare Case Management<br>Child Support Tracking<br>Welfare Eligibility Systems |
| Revenue and Taxation | Electronic Filing<br>Electronic Funds Transfer |
| Criminal Justice and Public Safety | Police Records Management<br>Crime Analysis Systems<br>Police And Fire Dispatch<br>Hazardous Materials Tracking<br>Probation Systems |
| Elections and Voter Registration | Election Systems<br>Voter Registration |

The remaining health and human services applications consist of systems for internal management controls or improvements to existing systems.

Taxation and revenue departments accounted for 20% of the systems integration projects in the survey. Almost half of these new projects were electronic filing of tax forms and electronic funds transfer. The balance were office automation systems and network and information systems improvements.

Public safety and criminal justice systems, including systems for local and state police, local fire departments, and courts and corrections departments, when taken as a group, represented 20% of all the SI projects. Applications


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included police records management and crime analysis systems, police and fire dispatch, and probation systems.

Voter registration systems, several in response to the new "Motor Voter" law, represented the fourth largest opportunity for systems integrators in the state and local government sector, with 9% of the projects.

EXHIBIT III-2

**Opportunities for Systems Integrators**

| | Percent |
|---|---|
| Health and Human Services | 42 |
| Revenue and Taxation | 20 |
| Public Safety and Criminal Justice | |
| • Police | 9 |
| • Fire | 4 |
| • Courts | 4 |
| • Corrections | 2 |
| Elections and Voter Registration | 13 |
| Other | 6 |

## B
## User Need Analysis

Major issues cited by state and local government users who plan to use systems integrators are summarized in Exhibit III-3.

- User department executives in this sector increasingly expect to improve operational and cost effectiveness through the use of information technology. However, they are frequently unable to provide funding for IS projects.

- Systems solutions are increasingly complex. Until recently, systems were developed to meet the specific needs of a department or work group within a department. Users and officials now demand integrated systems for human resources, social services, taxes, courts, criminal justice and public safety. Systems solutions now span multiple departments and even multiple agencies. The need to integrate a wide


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variety of functions across a wide geographic area represents a major opportunity for systems integrators.

- Connectivity continues to be a major issue for end users because of the need for access by legislators, city planners, controllers or program offices to financial, human resource, and benefits and services databases. Increasingly, users in this sector are looking to systems integrators to provide network expertise.

- Thirty-eight percent (38%) of users surveyed who are planning projects with systems integrators say that they will do so without the involvement of any in-house IS staff. Another 47% will involve in-house IS staff along with a systems integration firm.

- The need for the integration of existing data and applications with new technologies is already an issue in state and local government and represents a major opportunity for systems integrators. Examples are the use of global positioning systems with fire department dispatch applications, and imaging technology with geographic information systems (GISs).

EXHIBIT III-3

**Systems Integration Issues**

- Growing user expectations
- Increasing demand for new applications to improve efficiency and reduce costs
- Limited budgets
- Connectivity
- User training and support
- Legislative mandate

Major IS issues will remain substantially the same over the next several years. Funding will remain a significant problem, and IS managers' top


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priority for new development will be responding to legislative mandate. Given budget pressures, they will have very limited ability to execute comprehensive technology plans.

Training and support is a consistent theme in interviews with end users. IS management and, increasingly, vendors must plan adequately to train and support users. Vendors interested in this sector should explore end-user training and support service offerings, which build relationships while providing cost-effective training and support.

In many cases, the top priority for new applications will be dictated by legislative mandate. As mentioned earlier, half of the systems integration projects in voter registration are a direct result of the federal requirement that states allow citizens to register to vote when they obtain or renew their drivers' licenses. These projects were not a priority a year ago.

EXHIBIT III-4

**Major Buyer Issues**

- Users becoming buyers
- Increasingly complex solutions
- Unavailable skills
- Budget pressures
- Drive to reduce costs and improve worker productivity

In common with other industry sectors, state and local government departments are increasingly becoming buyers of IT systems, either bypassing the centralized IS departments completely, or using them as consultants in selecting and implementing new systems. Systems integrators are encountering more complex sales cycles, with more buyers involved. But this change also creates more opportunities for systems integrators to assist these nontechnical buyers, both in planning and execution.

Solutions are increasingly complex, requiring the interconnection of disparate systems to provide services to the public or information to managers and executives. These complex, networked systems represent an


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opportunity for systems integrators who can handle incompatibilities between existing and new systems.

Historically, local governments have not invested in building leading-edge technical skills in full-time employees. As a result, increasingly complex systems, in growing demand in this sector, offer real opportunities for systems integrators.

Unfortunately, this demand is depressed by continuing budget restrictions and pressures at all levels of government.

State and local governments have to find ways to deliver more and better services to the public with fewer workers, and so they plan to invest in applications that will increase the productive capacity of the work force. Major improvements in technologies such as document imaging and improved connectivity with systems in other agencies are needed to reduce the volume of paperwork.

## C
## Vendor Responses

The competitive scene in the state and local government market is very fragmented. Literally hundreds of systems integrators of all sizes and specialties pursue opportunities in this sector. Vendor size and financial strength are advantages in the large projects found in states and the largest cities and counties. Not surprisingly, the largest of these projects are usually awarded to major systems integrators such as Andersen Consulting, CSC, Digital and others, who work with commercial customers and/or the federal government in addition to state and local government customers.

In midsized cities and counties, smaller, specialized systems integrators enjoy a competitive advantage through their experience, understanding of the buyers' needs, and their lower cost structure. These specialized systems integrators, in contrast to the major firms, have few if any customers outside the state and local government market, and many focus on local government exclusively. They focus on a specific application area, such as licensing, court administration, public safety, etc.


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EXHIBIT III-5

## Systems Integrators' Market Focus

| | Specialized Systems Integrators | Major Systems Integrators |
|---|---|---|
| States | Few, selected opportunities | Primary focus |
| Large Cities and Counties | Primary focus | Large opportunities |
| Midsized Cities and Counties | Secondary focus | |

Systems integrators interested in entering the state and local government market are advised to develop alliances with the smaller, specialized firms already in the market. Combining the larger firm's financial strength and skills on very large projects with the smaller firm's experience and market knowledge will make a formidable competitive entry on very large projects.


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# Keys to Success in Penetrating the State and Local Government Market

The state and local government market is exceptionally attractive for systems integrators because it is the fastest growing market for their services, and ranks as the second largest of 14 commercial SI markets. On the other hand, there are real risks to the vendor's finances and reputation should a project fail in this sector. The risks to reputation stem from the highly visible and political nature of state and local government, together with the fact that government user and IS executives meet, cooperate, and share information much more freely than their counterparts in the private sector. The financial risks come from long, expensive selling cycles and fixed-price contracts.

Exhibit IV-1 summarizes the keys to success for systems integrators in the state and local government market. The large size and high selling cost of these projects demand careful opportunity qualification and well-developed project management capabilities. Continuous prospect development, diligent evaluation of competitors, and the creation of an effective in-house team supplemented with outside partners are essential to success. Vendors must also have business practices that provide for continuous assessment, management and containment of risks.


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EXHIBIT IV-1

Keys to Success
• Continuous prospect development
• Careful opportunity selection
• Competitive evaluation
• Diligent bid preparation
• Partnerships and alliances to round out strengths
• Strong project management

## A
## Targeting Opportunities

Selling cycles for major systems integration projects in the state and local government market are usually very long—typically 12 to 24 months. In the first 12 months or so prior to issuing a formal request for proposal (RFP), state and local governments often solicit comments from vendors about the proposed procurement, and gather information at meetings of numerous association meetings at the state, regional and national levels. Systems integrators interested in entering the state and local government market should participate in as many of these association meetings as possible.

During this information-gathering phase, state and local governments will very often visit similar agencies in other jurisdictions. Vendors who can point to successful projects, and who have maintained a close relationship with their customers, will obtain referrals during this critical phase. Many large SI projects, particularly those at the state level, are preceded by a professional services contract for requirements definition and development of specifications, or a business process re-engineering (BPR) study. SI vendors who win these preliminary contracts have an inside track for the SI business.

Once the RFP is issued, bids are usually due in 30-60 days, and it is too late to begin looking for partners, or to influence the specifications and scope of the project. Vendors who have had little or no contact with the customer


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prior to the RFP have virtually no chance of success. Many systems integrators, as a matter of policy, do not submit a bid unless they have had extensive interaction with the customer prior to the RFP.

Exhibit IV-2 shows a typical procurement cycle for SI projects in the state and local government market. Note that approval is required by the legislative body and/or executive office as many as three separate times: once when the project is submitted as part of the agency's budget for the coming fiscal year (some cities use a two-year planning cycle); again when a vendor has been selected, and the agency asks for permission to negotiate a contract with the selected vendor; and, in many cases, a third time when the agency asks for authority to sign the contract.

Many vendors have invested significant amounts of time and money in developing a prospect, establishing partnerships for the project and preparing a bid, only to have the legislative body postpone the project, or cancel it altogether. Given current budget pressures, vendors should be careful to select projects which either show rapid payback to the agency, or have a high political priority. Projects that pass one or both of these tests have a much higher likelihood of proceeding all the way through the procurement cycle.


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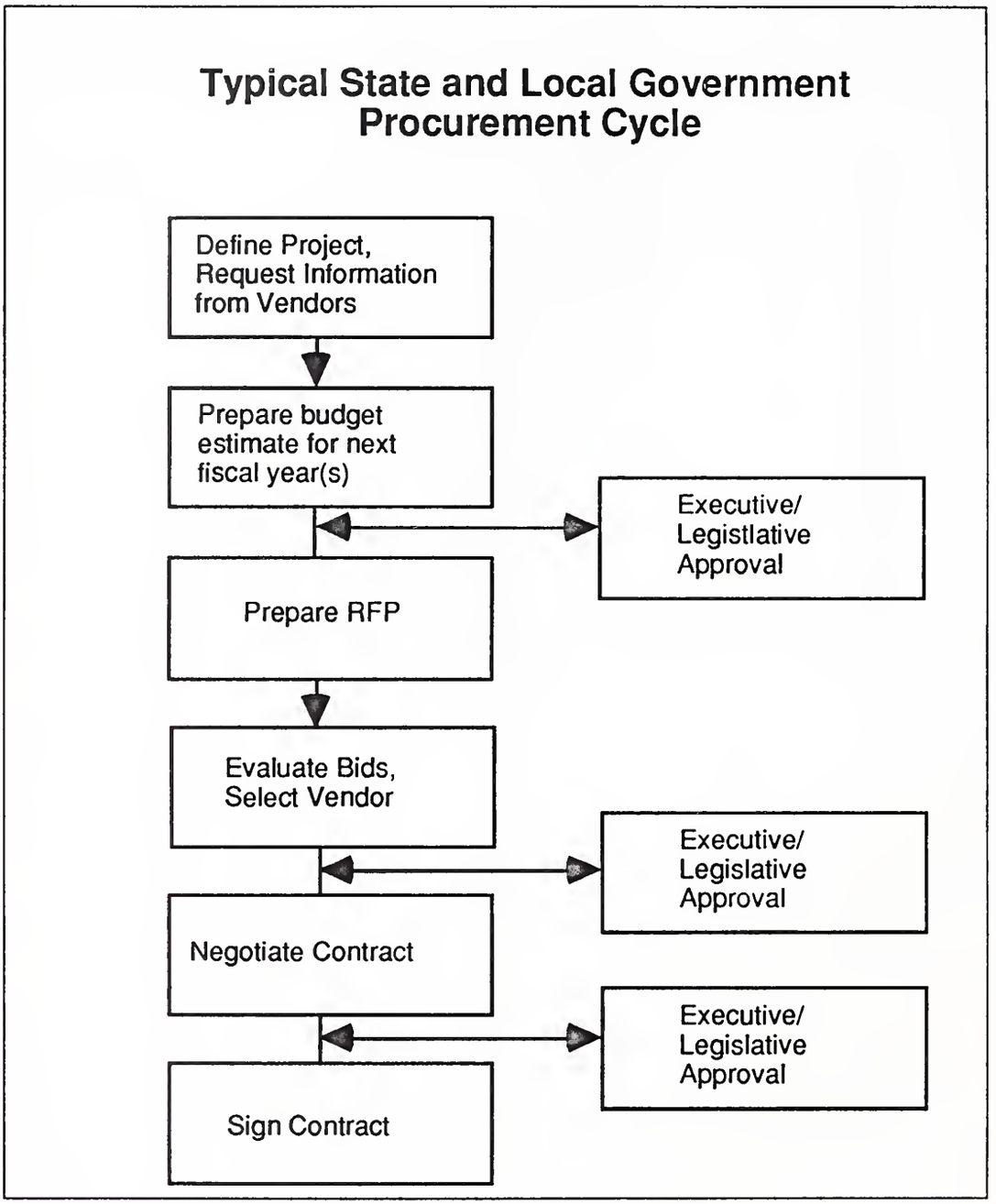
EXHIBIT IV-2




## B Organization

The bid development team and the project management team are critical in assessing and managing risk in state and local government SI projects. These groups are not distinct and isolated from each other; key members of the project management team must participate in the bid development if they are to be responsible for the profitability of the project if the bid is successful.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As noted earlier, once an RFP is issued, bids must be prepared in a very limited time, and therefore many SI vendors establish alliance agreements to cover future bid opportunities. These agreements detail how the two parties will work together if an opportunity arises and define the basic terms and conditions of the relationship.

The bidder must continually assess competitors, and when the size of the procurement warrants, many systems integrators develop an "as if" competitive bid. With this approach, the bid development team prepares the bid that they believe their principal competitor will submit. The bidder's proposal is then developed to beat this bid. A summary of the bid development process is shown in Exhibit IV-3.

Successful systems integrators in the state and local government sector have a formal change management system, with contract authority vested in the project manager. With the preponderance of fixed-price, time-critical contracts, it is imperative that the project manager be able to act quickly to avoid delays and cost over-runs.

It is essential that every level of the systems integrator's organization be aware of and sensitive to the procedures for risk management. A formal statement of risks inherent in a project should be developed during the bid preparation phase and serve as a guideline during contract negotiation and implementation.


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EXHIBIT IV-3

## Bid Development

- Requirements analysis
  - -Critical management issues
  - -Wants versus needs
  - -Functional solution
  - -Feasibility
- Proposal basis
  - -System architecture
  - -Equipment and software
  - -Delivery requirements
  - -Acceptance criteria
- Staffing
  - -Project management
  - -In-house staff
  - -Outside skills needed
- Environment
  - -Installation
  - -Training
- Costing
  - -Labor
  - -Materials
  - -Mark-up
- Competitive analysis
- Competitive pricing


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It is prudent for vendors to obtain liability insurance to cover failures by third parties to deliver in accordance with their agreements. A summary of risk containment strategies is contained in Exhibit IV-4.

EXHIBIT IV-4

**Risk Containment**

- Risk level assessed during bid preparation
- Risk varies with project size, complexity and client sensitivity
- Risk shared with subcontractors
- All levels of company sensitized to risk management
- Liability insurance coverage obtained

## C
## Marketing, Sales and Support

Though user and IS executives in this sector may at times favor vendors who have a record of success in specific state and local government applications, they place equal emphasis on a systems integrator's demonstrated ability to manage complex projects and make innovative use of technology. Many large projects—at the state level in particular—represent unique applications of new technologies, and so systems integrators who are new to the market are on equal footing to those with experience in the sector. Systems integrators interested in the state and local government market should select applications in which they can leverage the technology and experience gained in other markets.

Having selected those applications, marketing departments should work at building awareness of the company among potential customers in the market. Fortunately, state and local government officials form a much closer community than do their counterparts in the private sector. They meet, communicate, and associate regularly, and it is easy for vendors to participate in conferences and exhibitions where users and IS managers are present.

One principal role of the sales people is to search out and qualify opportunities. Once qualified, the selling process is very much a team effort


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requiring the active involvement of project management personnel, technical specialists (both in-house and from alliance companies) and company management. Though it is easier said than done, another important task of sales people at this stage is to influence the project scope and specifications to the vendor's favor. This is best accomplished through a systematic effort to understand the critical issues facing the buyer's executives, as well as the functional requirements, time and financial constraints, business terms and conditions, selection process and evaluation criteria, and other appropriate factors such as key decision makers and influences, and buyer perceptions.

Internal politics are especially important in this sector, as a vendor may well be selected or rejected based on considerations that have little to do with technical performance or economics. In the words of a sales executive for a very successful systems integrator in local government, "Cities are not economic entities like businesses—they are political entities. They make decisions for political reasons, not economic reasons." He went on to describe a city department that wanted to remain autonomous from the rest of the city. Though autonomy was on the hidden agenda, it was the single most important issue, overshadowing technical performance and economics. The user went to great lengths to prove that proposals favored by the city IS manager were not compliant with the RFP. In the end, the client selected a systems integrator whose proposal was perceived as enhancing separation from the city IS group and its systems.

It is impossible to assess these politics from a distance. Skilled sales people must work closely at every level in the buyer organization to become sensitized to its internal politics.


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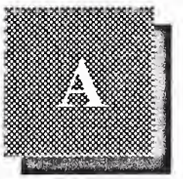


# Appendix: Definition of Terms

INPUT's *Definition of Terms* provides a complete set of definitions for all terms used market analyses and forecasts. No special terminology is used in this report.


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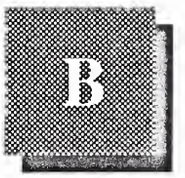


# Appendix: User Questionnaire

The following questionnaire was used by an INPUT consultant for follow-up telephone interviews of senior IS and user management. The respondents had been interviewed earlier in the year as part of INPUT's ongoing program to gather information about state and local government applications plans.


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**CONFIDENTIAL**
**Questionnaire**
System Integration Needs of
State and Local Government

1. What factors would cause you to use a systems integrator, rather than a professional services firm and/or software vendor?

_____

_____

2. On which types of projects do you favor the use of outside systems integrators over in-house staff?

_____

_____

3. What do you consider to be the three most important criteria in the selection of a systems integrator?

References _____

_____

State and local government experience_____

_____

Financial strength_____

_____

BPR capabilities_____

_____

Partnerships with leading vendors_____

_____

Applications development and maintenance experience _____

_____

Systems operations or facilities management experience _____

_____

Other _____

_____


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4. How would you evaluate technical expertise that a systems integration firm gained in commercial or federal government projects, versus experience with [state/local government] agencies similar to your own?

5. Describe the process of getting IT projects approved and funded. What role does cost justification play? Have you awarded any cost-plus contracts in the last two years?

6. When choosing between vendors, how do you assess and manage relative risks?

   Performance clauses

   Guaranties or warranties

   History/references

   Other

7. Which SI vendors have impressed you the most? What do you like about them?


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8. How important is vendor size (number of employees, revenues) in selecting one vendor over another?

9. What behavior on the part of SI vendors causes them to lose favor with your agency?

10. What advice would you give systems integrators who want to do business in [state/local government] in [your state]?


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